

Message Text

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ACTION EA-12

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 3361

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

USMISSION GENEVA

UNCLAS SECTION 1 OF 2 SEOUL 7992/1

E.O. 11652: N/A

TAGS: ECON, EFIN, ETRD

SUBJ: FURTHER INDICATIONS OF A SLOWDOWN

RER: SEOUL 7119

SUMMARY: RECENT INDICATORS PROVIDE ADDITIONAL EVIDENCE OF A SLOWDOWN IN KOREA'S ECONOMY WHICH HAD SHOWN SIGNS OF OVERHEATING IN THE FIRST HALF. INDUSTRIAL PRODUCTION FELL FOR THE SECOND MONTH IN A ROW AND CONSTRUCTION PERMITS AWARDED CONTINUE TO PLUMMET. THE TREND LINE IN PRICE RISES APPEARS TO HAVE REACHED ITS INFLECTION POINT WITH A DECELERATION IN INFLATION NOW EVIDENT. WHILE IMPORTS ARE REACHING NEW MONTHLY HIGHS, THE GROWTH RATE IN EXPORTS CONTINUES TO DECLINE. THE WARNING INDICATOR FELL IN JULY TO 1.7 THE LOWEST POINT FOR THE YEAR TO DATE. END SUMMARY

1. FURTHER EVIDENCE OF A SLOWDOWN FROM THE BOOMING CONDITIONS OF THE FIRST HALF ARE TO BE FOUND IN RECENTLY-RELEASED JULY/AUGUST ECONOMIC INDICATORS. INDUSTRIAL
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PRODUCTION INDEX DECLINED 5.1 PERCENT IN JULY (2 PERCENT SEASONALLY ADJUSTED) AND NOW STANDS AT 23.7 PERCENT ABOVE THE FIRST SEVEN MONTHS OF 1977. EXCEPT FOR ELECTRICAL POWER GENERATION (UP 7.6 PERCENT) ALL COMPONENTS OF THE INDEX SHOWED DECLINES. SIMILARLY, ALMOST ALL INDUSTRIAL SECTORS OF THE MANUFACTURING INDEX FELL IN JULY. THE STAR PERFORMERS TO DATE THIS YEAR IN MANUFACTURING

ARE TEXTILES (SHOWING A 17.2 PERCENT GROWTH RATE FOR THE FIRST SEVEN MONTHS COMPARED TO 8.8 PERCENT LAST YEAR); PRIMARY METALS (33.8 PERCENT VERSUS 23.3 PERCENT) AND MACHINERY AND EQUIPMENT (43.4 PERCENT GROWTH TO 25.9 PERCENT IN 1977).

2. AS A RESULT OF THE GOVERNMENT'S LOWERING THE BOOM ON THE REAL ESTATE BOOM, CONSTRUCTION PERMITS AWARDED IN JULY FELL 20 PERCENT FROM THE PREVIOUS MONTH WITH HOUSING DOWN 22 PERCENT AND COMMERCIAL CONSTRUCTION FALLING BY 41 PERCENT. INDUSTRIAL CONSTRUCTION PERMITS, HOWEVER, ROSE BY 22.6 PERCENT. ACCORDING TO ALL INDICATIONS, THE REAL ESTATE SPECULATIVE BOOM IS OVER, AT LEAST FOR THE TIME BEING, WITH REPORTS THAT REAL ESTATE TRADING HAS VIRTUALLY STOPPED THROUGHOUT THE COUNTRY AND PREMIUMS FOR APARTMENTS DROPPING CONSIDERABLY. LAND SALES ARE ALSO REPORTED STAGNANT.

3. THERE WAS WELCOME NEWS FOR THE GOVERNMENT PLANNERS ON THE PRICE FRONT. CONSUMER PRICES IN AUGUST ROSE 0.2 PERCENT (DOWN 0.6 PERCENT SEASONALLY ADJUSTED) AND NOW STAND 12.1 PERCENT ABOVE DECEMBER LEVELS. FOOD PRICES REMAIN HIGH, BUT INDICATIONS ARE THAT THE UPSURGE IN THE EARLIER PART OF THE YEAR HAS BEGUN TO LEVEL OUT. WHOLESALE PRICES ROSE BY 0.1 PERCENT (0.9 PERCENT SEASONALLY ADJUSTED) AND ARE UP 7.9 PERCENT FROM DECEMBER.

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INCREASES IN THE WHOLESALE PRICE INDEX IN AUGUST WERE PRIMARILY DUE TO PRICE RISES FOR CAPITAL GOODS AS FOOD PRICES FELL BY 0.3 PERCENT.

4. ALTHOUGH THE MONEY SUPPLY ADVANCED BY 3.7 PERCENT (5.3 PERCENT SEASONALLY ADJUSTED) FROM JULY LEVELS, THE RATE OF INCREASE FROM THE SAME MONTH OF THE PREVIOUS YEAR FOR THE SECOND MONTH IN A ROW REMAINED BELOW 30 PERCENT (UP 29.6 PERCENT IN AUGUST FROM AUGUST 1977). IF THE RATE OF EXPANSION IN SEPTEMBER CAN BE HELD TO A REASONABLE FIGURE--A SEASONALLY-EXPANSIONARY MONTH BECAUSE OF NATIONAL HOLIDAY--THE CHANCES FOR HOLDING THE RATE OF MONETARY GROWTH AROUND THE 30 PERCENT TARGET APPEAR GOOD. DOMESTIC CREDIT INCREASED 3.2 PERCENT IN AUGUST FROM JULY (4 PERCENT SEASONALLY ADJUSTED) AND IS 38.7 PERCENT ABOVE AUGUST 1977 LEVELS. TO DATE DOMESTIC CREDIT THIS YEAR HAS INCREASED BY 1,706 BILLION WON(\$3.5 BILLION).

5. GOVERNMENT FISCAL POLICY IN AUGUST REMAINED SOMEWHAT NEUTRAL WITH THE GENERAL BUDGET PRODUCING AN 88 BILLION

WON SURPLUS (\$182 MILLION), SHOWING A SURPLUS OF 286 BILLION WON (\$591 MILLION) FOR THE FIRST EIGHT MONTHS. TO DATE REVENUES RECEIVED AMOUNT TO 68.6 PERCENT OF THE BUDGET WHILE EXPENDITURES TOTAL ONLY 60.5 PERCENT. UNFORTUNATELY, CONTINUED DRAINS IN THE SPECIAL ACCOUNTS (GRAIN MANAGEMENT AND OTHER SPECIAL FUNDS) HAVE OFFSET THE CONTRACTIONARY EFFECTS OF THE SURPLUS IN THE GENERAL BUDGET ACCOUNTS.

6. THE FOREIGN TRADE SECTOR CONTINUES THE TRENDS EVIDENT FOR MOST OF THE YEAR. ALTHOUGH EXPORTS IN AUGUST AT \$1,051 MILLION (\$1,009 MILLION SEASONALLY ADJUSTED) ROSE 0.6 PERCENT FROM JULY LEVELS, THE RATE OF EXPANSION CONTINUES ITS DECELERATION. EXPORTS FOR THE UNCLASSIFIED

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FIRST EIGHT MONTHS NOW STAND AT 25.5 PERCENT OVER THE SAME PERIOD LAST YEAR (26 PERCENT IN JULY, 28 PERCENT IN MARCH). L/C ARRIVALS FELL 2.6 PERCENT IN AUGUST (BUT ROSE 6.9 PERCENT SEASONALLY ADJUSTED) AND SHOW A 21.4 PERCENT GAIN FOR THE PERIOD. TOTAL EXPORTS FOR THE JANUARY-AUGUST PERIOD NOW STAND AT \$7,801 MILLION WITH L/C ARRIVALS AT \$7,467 MILLION. DESPITE THE SLOW-DOWN THE TARGET STILL SHOULD BE REACHED. FOR THE FIRST EIGHT MONTHS OF 1978 EXPORTS ARE AT 62.4 PERCENT OF THEIR \$12.5 BILLION TARGET; LAST YEAR AT THIS TIME THEY WERE AT 62.2 MPERCENT OF THE YEAR'S GOAL.

7. IMPORTS CONTINUED TO EXPAND AT A RAPID CLIP, ATTAINING ANOTHER NEW ALL-TIME HIGH IN AUGUST OF \$1,378 MILLION (CIF), A13.9 PERCENT GAIN OVER JULY. EVEN ON A SEASONALLY ADJUSTED BASIS IMPORTS IN AUGUST ROSE BY 9.9 PERCENT; TO DATE TOTAL IMPORTS HAVE REACHED \$9,049 MILLION (CIF), A 30.7 PERCENT GROWTH FROM THE CORRESPONDING PERIOD IN 1977. ALTHOUGH IMPORT LICENSES IN AUGUST DECLINED 0.2 PERCENT FROM JULY (UP 7.1 PERCENT SEASONALLY ADJUSTED), THEIR RATE OF EXPANSION REMACNS A STRONG 44 PERCENT ABOVE 1977 LEVELS. WHETHER AS A RESULT OF IMPORT LIBERALIZATION OR OTHER FACTORS, IMPORT GROWTH IN 1978 HAS BEEN STRONG. (MORE)
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OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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INFO AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMCONSUL HONG KONG
USMISSION GENEVA

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8. WITH A \$249 MILLION TRADE DEFICIT IN AUGUST, THE CURRENT ACCOUNT SHOWED A \$236 MILLION DEFICIT AND NOW STANDS AT A \$573 MILLION DEFICIT FOR THE FIRST EIGHT MONTHS. THE TRADE DEFICIT FOR THE SAME PERIOD (FOB) HAS REACHED \$1,087 MILLION DOUBLE THAT FOR 1977. THE GROWTH IN NET INVISIBLES HAS APPEARED TO HAVE LEVELED; BUT INCREASED NET LONG-TERM CAPITAL INFLOWS HAVE BROUGHT THE BASIC BALANCE AT THE END OF AUGUST TO \$592 MILLION COMPARED TO \$588 MILLION IN AUGUST LAST YEAR. FOREIGN EXCHANGE RESERVES ROSE BY \$47 MILLION TO \$4,354 MILLION.

9. RECENTLY THE KOREA DEVELOPMENT INSTITUTE ESTIMATED REAL GROWTH FOR 1978 AT 14.5 PERCENT (15.5 PERCENT IN THE FIRST HALF). INDICATIONS ARE, HOWEVER, THIS MAY BE TOO HIGH. THE GOVERNMENT HAS DEFINITELY PUT ON THE BRAKES AND ALL INDICATIONS ARE FOR A CONTINUED DECELERATION IN THE GROWTH RATE DURING THE SECOND HALF. STABILIZATION AND FRUGALITY ARE NOW BEING EMPHASIZED. WITH THE APPARENT COLLAPSE OF THE REAL ESTATE BOOM, CONSUMERS

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BEING URGED TO SAVE RATHER THAN SPEND, CONTRACTION IN THE GROWTH RATE OF THE MONEY SUPPLY AND A COMFORTABLE BUT NOT BOOMING EXPORT PERFORMANCE, ONLY A STRONG INVESTMENT SECTOR REMAINS TO GIVE IMPETUS TO SECOND-HALF GROWTH. WE ESTIMATE THAT GROWTH SHOULD DECELERATE TO AROUND 10 PERCENT IN THE SECOND HALF, RESULTING IN A YEARLY GAIN OF ABOUT 12.5 PERCENT, STILL ABOVE THE 10/11 PERCENT REAL GROWTH TARGETED

AT THE BEGINNING OF THE YEAR.
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